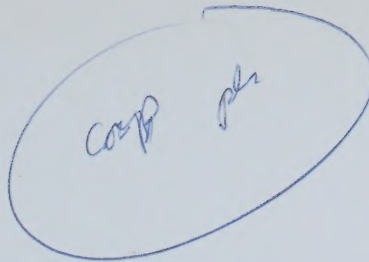


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**INGERSOLL MACHINE
AND
TOOL COMPANY,
LIMITED**

1968

ANNUAL REPORT



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Ingersoll Machine and Tool Company, Limited

Annual Report 1968

• DIRECTORS

H. A. WILSON	-	-	-	-	Ingersoll, Ontario
J. D. DUNCAN	-	-	-	-	Ingersoll, Ontario
F. G. LAWSON	-	-	-	-	Toronto, Ontario
J. D. LOVERIDGE	-	-	-	-	Ingersoll, Ontario
J. B. MITCHELL	-	-	-	-	Ingersoll, Ontario
K. C. SWANCE	-	-	-	-	Ingersoll, Ontario
E. L. WILSON	-	-	-	-	Ingersoll, Ontario

• OFFICERS

President	-	-	-	-	H. A. WILSON
Managing Director	-	-	-	-	J. D. LOVERIDGE
Secretary Treasurer	-	-	-	-	J. D. DUNCAN

• Transfer Agent and Registrar

THE CANADA TRUST COMPANY	-	Toronto, Ontario
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• AUDITORS

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants
London, Ontario

Ingersoll Machine and Tool Company, Limited

Directors report to the shareholders

We submit herewith the financial report for the year 1968, which includes the consolidated balance sheet, statement of earnings, statement of earnings retained and used in the business, and statement of source and use of funds of the company and its subsidiary, Morrow Screw and Nut Company, Limited.

The prediction made in our last year's report of greatly reduced earnings in 1968 has proved correct. After a very late start on some of our contracts, two factors served further to reduce the earnings of the parent company. Firstly, a strike which lasted five weeks, and secondly, extreme difficulty in obtaining a casting of the required quality for a major defence contract. However, once these difficulties were overcome, the improvement in earnings was such as to enable the directors to decide that dividends should be maintained at the previous year's level.

We feel it necessary to state that the demands by the Union when negotiating for a new contract at the parent company were so unrealistic that your directors had no alternative but to take a strike. Intervention by the Provincial Department of Labour served only to worsen the situation; settlement was finally reached through the good offices of the Mayor of Ingersoll.

This, the first strike in fifteen years, was a direct result of the pressure for wage parity between Canada and the United States mentioned in our last report. Parity in this context means, of course, parity with Detroit; at the time of the strike, the average wage at the Ingersoll Machine and Tool Company was 34% above that of the United States company most nearly akin to your own, which plant is located in Tennessee.

Tax Allowances

It has been the practice of our companies to claim for tax purposes all the capital cost that the Department of National Revenue would allow. These allowances have been in excess of the depreciation recorded in the accounts, and in the past we have shown as a note to our financial statements the accumulated amounts by which income taxes have been so reduced in current and prior years. In preparing our financial statements for the year just ended, in order to conform with generally accepted prac-

tices, we are for the first time, showing this accumulation as a deferred liability and it has resulted in a substantial charge against our retained earnings. In order that 1968 and 1967 may be properly compared, we have restated the 1967 balance sheet and statements to reflect this change in that year.

Operations

The consolidated sales of the company and its subsidiary amounted to \$8,869,000, a decrease of \$2,246,400 from 1967. This reflects a drop in sales of the parent company in the amount of \$2,167,200 and a drop in sales of the subsidiary in the amount of \$79,200.

The consolidated net income before provision for depreciation and income tax amounted to \$487,500, a reduction of \$1,181,200. After provision for depreciation and income tax, the net profit transferred to consolidated net earnings was \$117,300 compared with \$689,800 in 1967. The net profit of the parent company was \$133,900 compared with \$616,600, while the Morrow Company suffered a loss of \$5,800 compared with a profit in 1967 of \$74,400.

After provision of \$4.00 per share upon the outstanding preferred shares, earnings per share on the common stock were 67¢ in 1968 compared with \$4.06 in 1967.

Retained earnings decreased by \$55,000 in 1968 because of the disappointing results. In addition there was a transfer to deferred income tax as explained above in the amount of \$777,755. Our retained earnings in use in the business now amounts to \$3,290,000. The capital surplus arising from redemption of preferred shares now amounts to \$245,700 and the total shareholders' equity now amounts to \$3,907,000 compared with \$3,962,000 (restated) at the end of 1967.

Dividends

Four quarterly dividends of \$1.00 per share were paid on the preferred shares. Four quarterly dividends of 12½¢ per share plus four participating dividends totalling 50¢ per share were paid upon Class A common shares. Four dividends totalling \$1.00 per share were paid on the Class B common shares.

During 1968 the parent company purchased for redemption 25 preferred shares while the subsidiary redeemed 41 preferred shares.

Ingersoll Machine and Tool Company, Limited

Plant and Equipment

During 1968 additions to fixed assets amounted to \$345,100 which reflects purchases by the parent company in the amount of \$177,200 and purchases by the subsidiary in the amount of \$167,900.

Working Capital

Working capital at the end of 1968 amounted to \$2,074,000, a decrease of \$426,800 from 1967. The shareholders' equity in the company as at December 31st, 1968 is equivalent to \$37.46 per 4% preferred share outstanding. After deducting the preferred stock at par value, the combined Class A and Class B common shares have a book value of \$22.61 compared with \$22.92 (restated) at the end of the previous year.

Outlook

Operations in 1969 will produce group results very much better than those for the year now being reported. First quarter sales of both companies in 1969 are ahead of the same period in 1968. Interim reports should reflect the improvement.

The marketing survey of the Morrow Company to which we referred in our 1967 report, was completed in the late spring of 1968 and contained many recommendations, several of which have already been acted upon and others will be implemented in the future. By no means the least of these was the strengthening of our operations by the appointment of a Director of

Marketing, in which capacity Mr. Guy Hamel joined this company in August. This and other actions, one of which was a price increase in fasteners, came too late to affect the 1968 results. The prospects for 1969 are for a small profit instead of a loss.

The Morrow Company has a 25% interest in the Williams Form Hardware and Rock Bolt (Canada) Limited, which company was again Morrow's biggest customer in 1968 and itself operated profitably. There should be further improvement in 1969 both in generating sales and providing income in the form of dividends.

Sales Tax

We must mention what we think is the short-sighted decision of the Provincial Government in imposing a 5% sales tax upon production machinery and equipment - the more so since the Federal Government, by removing the 12% Federal tax some time ago, agreed with the advice of the Canadian Manufacturers' Association that such a tax served only to make Canadian companies less competitive in respect to their United States counterparts where no such tax prevails.

Finally, your directors again wish to express their appreciation of the efforts made by the staff during this somewhat trying year.

On behalf of the Board,

H. A. WILSON,
President.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

200 Queens Avenue
London, Ont.

AUDITORS' REPORT

To The Shareholders
Ingersoll Machine and Tool Company, Limited

We have examined the consolidated balance sheet of Ingersoll Machine and Tool Company, Limited and its subsidiary, Morrow Screw & Nut Company, Limited as at December 31, 1968 and the consolidated statements of earnings, retained earnings in use in the business, capital surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in accounting for deferred income taxes outlined in Note 7 to the consolidated financial statements.

RIDDELL, STEAD, GRAHAM & HUTCHISON

March 12, 1969

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

**CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1968**

	<u>1968</u>	<u>1967</u> (Restated) (Note 7)
SALES AND OTHER INCOME		
Sale of products	\$8,869,874	\$11,116,278
Income from investments	22,689	16,995
	<u>8,892,563</u>	<u>11,133,273</u>
COSTS AND EXPENSES		
Cost of products sold	7,184,026	8,349,748
Depreciation of plant and equipment	245,388	224,565
Selling and administrative expenses	1,243,944	1,100,838
Interest	7,468	10,747
	<u>8,680,826</u>	<u>9,685,898</u>
EARNINGS FROM OPERATIONS	211,737	1,447,375
Profit on disposal of fixed assets	30,342	4,271
Loss on sale of marketable securities	—	(7,548)
	<u>242,079</u>	<u>1,444,098</u>
EARNINGS BEFORE INCOME TAXES		
Provision for income taxes (Note 7)		
Current	136,971	679,000
Deferred	(12,147)	75,311
	<u>124,824</u>	<u>754,311</u>
NET EARNINGS	<u>\$ 117,255</u>	<u>\$ 689,787</u>

Ingersoll Machine and

AND ITS

MORROW SCREW &

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS

	<u>1968</u>	<u>1967</u>
Cash	\$ —	\$ 153,746
Bank deposit receipts	—	600,000
Accounts receivable	1,453,157	1,249,108
Inventories valued at the lower of cost and net realizable value (Note 1)	2,002,008	1,831,248
Special refundable tax	25,717	—
Prepaid expenses	60,703	53,528
	<u>3,541,585</u>	<u>3,887,630</u>

INVESTMENTS

Mortgage receivable	10,000	14,000
Shares of a Canadian Company, at cost	22,000	22,000
Cash surrender value of life insurance	69,428	64,007
	<u>101,428</u>	<u>100,007</u>

SPECIAL REFUNDABLE TAX

<u>—</u>	<u>35,251</u>
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FIXED ASSETS

Plants and properties (Note 2)	2,542,416	2,356,023
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DEFERRED CHARGES (Note 3)

<u>152,289</u>	<u>—</u>
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Signed on behalf of the Board

H. A. WILSON, Director

J. D. DUNCAN, Director

<u>\$6,337,718</u>	<u>\$6,378,911</u>
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Tool Company, Limited

BSIDIARY

T COMPANY, LIMITED

ET AS AT DECEMBER 31, 1968

LIABILITIES

	<u>1968</u>	<u>1967</u> (Restated) (Note 7)
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	\$ 173,387	\$ —
Accounts, payable and accrued	1,030,049	667,925
Income and other taxes	167,253	622,728
Dividends payable	46,918	46,164
Current portion of long-term debt (Note 5)	49,998	49,998
	<u>1,467,605</u>	<u>1,386,815</u>
LONG-TERM DEBT		
Advances repayable to the Government of Canada (Note 5)	99,997	149,995
CONTINGENT LIABILITY (Note 6)		
DEFERRED INCOME TAXES (Note 7)	<u>773,614</u>	<u>785,761</u>
MINORITY INTEREST		
Preferred shares	53,000	57,100
Common share equity	36,479	37,117
	<u>89,479</u>	<u>94,217</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 8)		
Authorized		
3,500 4% cumulative, redeemable, sinking fund preferred shares of \$100 each		
100,000 class "A" common shares without par value		
100,000 class "B" common shares without par value		
Issued		
1,043 preferred shares	104,300	106,800
86,140 class "A" common shares	174,475	174,475
82,040 class "B" common shares	92,475	92,475
	<u>371,250</u>	<u>373,750</u>
CAPITAL SURPLUS ARISING FROM REDEMPTION OF PREFERRED SHARES	245,700	243,200
RETAINED EARNINGS IN USE IN THE BUSINESS	3,290,073	3,345,173
	<u>3,907,023</u>	<u>3,962,123</u>
	<u>\$6,337,718</u>	<u>\$6,378,911</u>

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1968

1. Inventories consist of:

	<u>1968</u>	<u>1967</u>
Finished products	\$ 579,430	\$ 600,951
Work in process	664,731	527,564
Raw materials	757,847	702,733
	<u>\$2,002,008</u>	<u>\$1,831,248</u>

2. Plants and properties consist of:

	Cost	Accumulated Depreciation	<u>1968</u>	Net <u>1967</u>
Land	\$ 54,406	\$ —	\$ 54,406	\$ 54,406
Buildings	1,007,136	527,560	479,576	487,836
Equipment	5,131,679	3,123,245	2,008,434	1,813,781
	<u>\$6,193,221</u>	<u>\$3,650,805</u>	<u>\$2,542,416</u>	<u>\$2,356,023</u>

3. The deferred charges consist of preproduction expenses incurred in connection with a major order from a customer and are being amortized over the two-year term of the order. The expenses amounted to \$178,990 of which \$26,701 was charged to earnings in the current year.
4. The bank indebtedness is secured by the accounts receivable and the cash surrender value of the life insurance policies.
5. The company received the sum of \$499,984 from the Government of Canada under a capital assistance agreement for defence export which was used to procure certain fixed assets as specified in the agreement. Under the terms of the agreement 50% of the funds received were contributed by the Government and 50% are to be repaid without interest in annual instalments of \$49,998 to March 31, 1971.
6. The subsidiary company is contingently liable to the extent of \$200,000 under its guarantee of a bank loan to a customer.
7. For income tax purposes the companies have claimed capital cost allowances in excess of the related amounts reflected in the accounts and in prior years have provided in their accounts only for taxes payable on their taxable income for the year. In the current year the companies adopted the policy, with retroactive effect, of providing for income taxes deferred as a result of claiming capital cost allowances in excess of depreciation recorded.
 As a result of this change in policy deferred income taxes have been provided in the current year in the amount of \$773,614 of which \$777,755 has been charged to retained earnings in use in the business, \$8,006 to minority interest and \$12,147 has been credited to net earnings for the year. Prior years' net earnings, retained earnings in use in the business and minority interest have been restated to give effect to this change in policy.
8. The preferred shares are redeemable at a maximum price of \$105 and they do not have voting rights unless the dividends thereon are eighteen months in arrears.
 The class "A" common shares are entitled to receive fixed cumulative preferential cash dividends at the rate of 50¢ per annum and they do not have voting rights unless the dividends thereon are eighteen months in arrears.
9. The total remuneration received by the directors and senior officers from the company and its subsidiary for the year ended December 31, 1968 was \$114,587.
10. On the basis of the most recent independent actuarial reports the unfunded pension liabilities at December 31, 1968 were estimated to be \$741,000. This amount is being funded in annual instalments over the next twenty-one years.

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS
IN USE IN THE BUSINESS FOR THE
YEAR ENDED DECEMBER 31, 1968**

	<u>1968</u>	<u>1967</u> (Restated) (Note 7)
BALANCE AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED	\$4,122,928	\$3,427,814
Transfer to deferred income taxes (Note 7)	<u>777,755</u>	<u>663,522</u>
BALANCE AT BEGINNING OF YEAR AS RESTATED	3,345,173	2,764,292
Net earnings for the year	117,255	689,787
Discount on redemption of preferred shares	2,199	900
Surplus resulting from acquisition of minority shares	<u>383</u>	<u>95,959</u>
	<u>3,465,010</u>	<u>3,550,938</u>
Capital surplus arising from redemption of preferred shares	2,500	3,000
Dividends declared		
Preferred shares	4,257	4,332
Class "A" common shares	86,140	95,883
Class "B" common shares	<u>82,040</u>	<u>102,550</u>
	<u>174,937</u>	<u>205,765</u>
BALANCE AT END OF YEAR	<u>\$3,290,073</u>	<u>\$3,345,173</u>

**CONSOLIDATED STATEMENT OF CAPITAL SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1968**

	<u>1968</u>	<u>1967</u>
BALANCE AT BEGINNING OF YEAR	\$243,200	\$240,200
Amount transferred from retained earnings	<u>2,500</u>	<u>3,000</u>
BALANCE AT END OF YEAR	<u>\$245,700</u>	<u>\$243,200</u>

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

**CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1968**

	<u>1968</u>	<u>1967</u> (Restated) (Note 7)
SOURCE OF FUNDS		
From operations		
Net earnings for the year	\$ 117,255	\$ 689,787
Non-cash charges (credit) for		
Depreciation	245,388	224,565
Deferred income taxes (Note 7)	(12,147)	75,311
	<u>350,496</u>	<u>989,663</u>
Proceeds from disposal of fixed assets	2,902	29,226
Special refundable tax	35,251	—
Issue of class "A" common shares	—	82,000
	<u>388,649</u>	<u>1,100,889</u>
USE OF FUNDS		
Expenditures for fixed assets	434,683	141,394
Deferred charges (Note 3)	152,289	—
Dividends declared	172,437	202,765
Current portion of long-term debt (Note 5)	49,998	49,998
Redemption of preferred shares	4,380	2,100
Acquisition of shares of subsidiary	—	76,675
Special refundable tax	—	11,328
Acquisition of shares of a Canadian company	—	15,000
Sundry items	1,697	2,014
	<u>815,484</u>	<u>501,274</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(426,835)	599,615
WORKING CAPITAL AT BEGINNING OF YEAR	<u>2,500,815</u>	<u>1,901,200</u>
WORKING CAPITAL AT END OF YEAR	<u><u>\$2,073,980</u></u>	<u><u>\$2,500,815</u></u>

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

FIVE-YEAR COMPARISON

<u>Operating Results</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
Sales	\$8,869,874.	\$11,116,278.	\$9,459,724.	\$8,943,366.	\$8,468,969.
Operating Income	487,372.	1,669,796.	1,047,334.	707,095.	471,759.
Depreciation	245,388.	224,565.	225,336.	191,376.	174,932.
Income Taxes	124,824.	754,311.	388,000.	243,775.	121,750.
Provision for minority interest	(95).	1,133.	16,338.	21,690.	19,387.
Net Earnings after taxes	117,255.	689,787.	417,660.	250,254.	155,690.
Cash Flow	388,649.	1,018,889.	828,956.	534,856.	337,949.
Net Earnings as % of sales	1.3%	6.2%	4.4%	2.8%	1.8%
<u>Shareholders' Participation</u>					
Dividends Declared					
Preferred	\$ 4,257.	\$ 4,332.	\$ 4,392.	\$ 4,673.	\$ 6,316.
Class A Common	86,140.	95,883.	61,531.	41,020.	41,020.
Class B Common	82,040.	102,550.	61,530.	28,715.	20,310.
Earnings per common share	.67	4.08	2.52	1.50	.91
Common share equity	3,802,723.	3,855,323.	3,139,083.	2,683,884.	2,495,042.
Equity per common share	22.61	22.92	19.13	16.36	15.21
Common share earnings as a % of equity	3%	17.8%	13.2%	9.2%	6%
<u>Balance Sheet Items</u>					
Working Capital	\$2,073,980.	\$2,500,815.	\$1,901,200.	\$1,864,629.	\$1,767,042.
Fixed Assets (net)	2,542,416.	2,356,023.	2,468,591.	2,029,140.	1,857,554.
Additions to fixed assets	345,100.	141,394.	684,774.	371,656.	344,282.

